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COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

MAC 402: TAX LAW AND PRACTICE

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2022

LECTURER: I. RARAMI

DURATION: 3 HOURS

INSTRUCTIONS

Answer all **four** questions

Start each question on a new page in your answer booklet.

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE [25 MARKS]

Kugutakushanda (Pvt) Ltd was engaged in farming operations in the Odzi Area. The company's trading and profit and loss account for the year ended 31 December 2021 was as follows:

Opening Inventory	\$	Sales (Normal)	\$
2 bulls (at cost)	36000	150 oxen at	900000
300 oxen at \$5000 each	1500000	50 cows at	<u>225000</u>
100 cows at \$4000 each	400000		1125000
60 heifers at \$3000 each	180000	Epidemic Sales	
70 tollies at \$3000 each	210000	100 oxen at	700000
50 calves at \$2000 each	<u>100000</u>	50 cows at	275000
	2426000	80 tollies &	
300 Purchases	750000	heifers	<u>328000</u>
Profit	1322000		1303000
		Closing Inventory	
		2 bulls (at cost)	36000
		336 oxen at \$5000	1680000
		38 cows at \$4000	152000
		50 heifers & tollies	150000
		26 calves at \$2000	<u>52000</u>
<u>882</u>	<u>4498000</u>	<u>882</u>	<u>4498000</u>

Profit and Loss Account

Wages –herdman	206400	Livestock profit	1322000
Interest on loan	45500	Sales of manure	32000
Loan raising fess	2500		
Depreciation	64000		
Livestock feed	118350		
Repairs	84250		
Net profit	<u>833400</u>		
	<u>1354400</u>		<u>1354400</u>

In late January 2021, the Odzi Area was hit by an anthrax epidemic. This forced the company to sell 230 herd of cattle in February 2021. The concerted efforts by the Veterinary Services Department to contain the disease, the epidemic was controlled. The company sold and additional 200 herd in June. In October 2021, the company decided to restock the farm just before the rains and so bought 300 herd of cattle.

The carrying capacity of the farm was determined to be 375 herd by the Department of Conservation and Extension Services.

Calculate the company's **minimum** taxable income or loss and the tax payable, if any, considering all available tax concessions to the company.

NOTES

1. There were no income tax values on the company's old assets. However, the company bought additional grazing land from an adjacent farm, in November 2021.

2. The following were bought/constructed before the cattle could be moved in December 2021.

a). Fencing around the grazing land	\$55000
b). Additional water points and boreholes sunk	\$78000
c). Farm roads	\$80000

Interest and fees on loan represents the loan raising fees and interest on the loan of \$500000 borrowed to buy the additional land.

[25 marks]

QUESTION TWO [25 MARKS]

a). Joel and Julie Money, aged 56 and 50 respectively, are married and reside in a flat in Mt Pleasant, Harare. Julie is a renowned businesswoman while Joel is a freelance journalist. On 1 February 2019, Julie Money was involved in an accident which rendered her wheelchair-bound. As she could no longer run her business as effectively as before, she transferred the business to Joel Money on 8 April 2019. The following were the assets transferred:

	Date	Original cost	Income tax value	Market value
	Acquired	US\$	US\$	US\$
Industrial building	1 March 2017	80 000	20 000	110 000
Security wall	1 March 2017	20 000	5 000	25 000
Plant and machinery	1 March 2017	45 000	11 250	40 000
Commercial building	5 June 2017	60 000	57 000	75 000
Furniture and fittings	5 June 2017	32 000	8 000	20 000

Joel and Julie Money also made a decision to sell their flat and use the proceeds to buy a house, since the flat was not specifically built to accommodate Julie's new requirements.

The flat had been acquired on 25 February 2017 at a cost of US\$65 000. An offer of US\$95 000 was made for the flat which was accepted by Joel and Julie Money on 20 May 2019. The couple identified a suitable house in Monavale for US\$71 000 and signed the purchase agreement on 1 July 2019.

During the year ended 31 December 2019, Joel and Julie Money disposed of the following shares:

	Date acquired	Original cost	Gross proceeds
		US\$	US\$
Listed shares	23 March 2017	7 900	10 300
Unlisted shares	25 June 2016	3 500	9 400

The listed shares were bought by Joel Money and the unlisted shares by Julie Money.

Additional information

Joel Money paid 5% of the gross proceeds from the disposal of shares towards the stock broker's fees.

Required:

a). (i) Outline the tax implications for Julie Money of the transfer of the business to Joel Money during the year.

State any available tax dispensations;

Note: Computations are not required for this part. **(3 marks)**

(ii) State any tax relief available to Joe and Pat Lemon in connection with the disposal of their flat and state the qualifying criteria.
.
(3 marks)

iii). Calculate the tax payable by Joel and Julie Money for the year ended 31 December 2019, in the absence of any tax dispensations on the disposal of the business assets and their shareholdings.

Note: You are NOT required to compute the capital gains tax on the disposal of their flat. **(9 marks)**

(15 marks)

b). Ms Kacook sold her property during the year ended 31 December 2019 for \$120 000, the property was built at a cost of 80 000 in May 2017. The property was sold with the following conditions:

a) 50% deposit was to be paid on the date of sale.

b) 25% of the selling price to be paid in two years

c) The transfer of the property to the buyer will only occur upon full payment of the purchase price.

Calculate capital gains for Ms Kacook for the three years. **(10 marks)**

(25 MARKS)

QUESTION THREE [25 MARKS]

Regy Regy is a platinum mining company operating in Lower Gweru. The company is owned by 3 three directors, one of which, Mr Regis is based in Zimbabwe with full time responsibility with the company. The other directors are based in China. The company showed the following details for the year ended 31 December 2021.

	Note	\$
Income		
Sales of platinum ore		2 436 000
Sale of mining claims		200 000
Profit from sale of front-end loader	1	15 300
Interest from Tetrad Investment Bank		10 000
Expenses		
Management and administration expenses		450 000
Interest payable to parent company	2	150 000
Depreciation		120 000
Lease expenses	6	10 000
Management fees payable to a parent company.	2	24 000
Crushing of platinum ore		134 000
Renewal and replacement		<u>14 000</u>
Net profit		<u>1 904 300</u>

Additional information

1. Regy Regy (Pvt) Ltd sold a front-end loader on 1 October 2021, the truck had a book value of \$14 700.
2. Regy Regy (Pvt) Ltd is a subsidiary of Regy Regy Mining China and the Zimbabwean mining company borrowed an amount of \$1500 000 at 10% interest per annum at the beginning of the year. The loan was meant to expand the mine operations, Regy Regy Zimbabwe also paid \$24 000 to the parent company for expertise hired for sinking of mine shaft.

3. At 31 December 2021 , the company had the following balance sheet extract;

Issued share capital	120 000
Retained profit	60 000
Loan from Regy Regy China	1500 000

4. The company incurred the following capital expenditure during the year ended 31 December 2021.

Clinic built	80 000
Mine equipment	20 000
House of mine nurse	50 000
House of a director	24 000
Mercedes Benz	26 000
30 tonnes haulage truck	60 000
Prospecting expenses	13 000

5. The unredeemed balance of capital expenditure at the beginning of the year was \$600 000 and the life of the mine was agreed to be 8 year at 1 January 2021. The company had elected to claim capital redemption allowance on a life of mine basis.

6. The company signed a lease agreement with JK Mining Solutions for the use of a Crimping machine, the company paid a lump sum amount of \$10 000 and rentals of \$1 500 per month payable in arrears beginning April 2021. Only the lump sum was included in the accounts.

Required

- a) Calculate Capital redemption allowance for the year ended 31 December 2021. **(5 marks)**
- b) Calculate the taxable income of Regy Regy for the year ended 31 December 2021. **(15 marks)**
- c) Explain how the treatment of assessed losses and recoupment of mining concern differs from other taxpayers. **(5 marks)**
(25 MARKS)

QUESTION FOUR [25 MARKS]

a) i). Mr Hurudza because his area is drought stricken, sold 25 oxen which realised \$ 12 000. The F.V.S for oxen of which had been on hand at the beginning of the year was \$100. Opening stock was 160 herd and closing stock is 140 herd. The direct livestock expenses were \$12 000.

Calculate his taxable income.

(3 marks)

ii). Due to favourable weather conditions Mr Farmer Farmer restocked his herd which was depleted by drought. He purchased 200 herd for \$14 000. The carrying capacity of land as determined by the Department of Conservation and Extension was 450 herd. Herd on hand before purchase was 300 herd.

Calculate Mr Farmer Farmer's restocking allowance.

(2 marks)

b). Mr Chelsea became ordinarily resident in Zimbabwe beginning of March 2016. On 1 July 2019, he died at Avenues Clinic after a short illness and was survived by his wife and a son, Arsenal.

The following details are relevant:

Chelsea's assets at the time of his death

	Notes	\$
Principal Private Residence		250 000
Industrial stand		450 000
Toyota land cruiser	1	25 000
Mercedes Benz		30 000
Bank deposit		50 000
Cash in hand		3 000
Shares in old mutual		40 000
Block of flats	2	340 000

The executer of the late Chelsea's estate received the following amounts between 20 July 2019 and 31 December 2021, the date the final distribution account for the late Chelsea was approved by the Master of High Court.

i. Lump sum from a matured policy \$140 000

ii. Lump sum from a pension fund \$80 000, paid as a death benefit. Chelsea had donated a Mitsubishi twin cab to his cousin Liverpool in 2016, worth \$14 000.

Notes

1. The Master of High Court accepted the Toyota Land cruiser as a family car.
2. Mr Chelsea acquired the block of flats were situated in 2021, the block of flats are situated in Francistown, Botswana

Required

Calculate the dutiable amount in respect of Mr Chelsea estate

(18 marks)

- c). State and briefly explain any four tax avoidance methods in tax planning.

(2 marks).

(25 MARKS)

END OF PAPER